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SUBJECT: CANDIDATES AND THEIR OWN REFORMS

REF: MEXICO 806

SUMMARY

¶1. On the campaign trail the week of February 14, Felipe Calderon and Roberto Madrazo spoke on their reform priorities while Andres Manuel Lopez Obrador (AMLO) announced his "new" agenda, which centers around the idea that no "so-called structural reforms" are needed. Calderon continued promoting private investment in energy, fiscal reform, Qbor reform, rule of law, and public safety, while Madrazo promoted more limited private investment in energy, and gave generic promises of improved security, and more jobs. On February 20, Felipe Calderon presented his new foreign affairs advisor, Arturo Sarukhan, a well-respected career diplomat. End summary.

AMLO SAYS NO TO REFORMS NEEDED

¶2. (SBU) The three main presidential candidates continued touring the country on their campaigns the week of February ¶12. AMLO made the biggest headlines by claiming that "so-called structural reforms" to the Mexican economy - reforms that nearly every major economist and analyst believe needed to spur growth - are unnecessary. AMLO also instructed Party of the Democratic Revolution (PRD), Workers' Party (PT), and Convergencia party lawmakers to vote against proposed reforms to the Fiscal Administration System (SAT, Mexico's equivalent of the IRS) and other financial institutions, as well as any proposed reforms to the Customs agency, or to the stagnant energy sector. AMLO claims the proposal to make the SAT an independent body would only help tax evaders and protect those who, according to him, have been privileged with tax benefits by previous administrations. He alleged that greater autonomy for Customs would only help hide corruption inside the organization. For AMLO, fiscal reform merely represents a tax increase on the poor by taxing food and medicine, and the energy reform means "privatization" of the treasured oil and electricity industries. He warned that that reforms to public pension systems (ISSSTE and IMSS) would not pass should he become president.

AMLO'S "NEW" AGENDA

13. (SBU) AMLO called for a new agenda that would "leave behind the so-called structural reforms." He said such reforms "are not structural, but rather regressive reforms; a recipe dictated by international financial organizations to countries." The new agenda includes vague promises of economic growth, job creation, welfare for everybody, a fight against corruption, sanctions against white-collar executives, and fiscal austerity. AMLO plans to save government money by reducing the salaries of the President, Ministers, Senators, Deputies, judges of the Supreme Court of Justice, and on the elimination of pensions to former presidents (amounts that are trivial in an overall budget approaching USD 200 billion).

AMLO'S PROPOSALS

14. (SBU) At a speech in the state of Coahuila, AMLO summarized some of his major campaign proposals. He promised to increase the minimum wage above the inflation rate (apparently without considering the effects this might have on inflation itself). He also promised to renegotiate NAFTA provisions on beans and corn, apparently ignoring the need for agreement by the U.S. and Canada. He said that free trade in basic grains would not be effective in 2008. Pandering to his audience, AMLO promised to set guaranteed prices for beans and corn, and offered his support to apple and meat producers as well. AMLO's plan to bring financing to rural areas involves allowing local cooperatives to operate regional banks. On fiscal reform, AMLO would like to simplify the tax system through self-declarations of income and by taxing only those who have "sufficient" money

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to pay. In the industrial state of Nuevo Leon, AMLO told businessmen that he was not against them, and that he would support them by reducing energy prices to turn Monterrey into the industrial capital it "once was."

RAMIREZ DE LA O DEFENDS AMLO

15. (SBU) AMLO's economic advisor, Rogelio Ramirez de la O, suggested that the private sector is indulging its prejudices in believing negative publicity painting as a radical socialist and an irresponsible spender. Defending AMLO, Ramirez explained that AMLO's program to provide pensions to certain groups would only represent an additional 1% of GDP, while the candidate proposed to cut government spending by 2% of GDP. Ramirez de la O said that AMLO's economic plan proposes to re-channel savings derived from cutting government operating expenses to public investment while at the same time seeking the participation of the private sector in such investments.

MADRAZO'S THREE MAIN REFORMS

16. (SBU) Institutional Revolutionary Party (PRI) candidate Roberto Madrazo laid out his priorities for Mexico: energy, security, and employment. Providing a few more details than previously, Madrazo said he would revamp the energy sector by establishing strategic alliances with private partners, but always under the government control; eliminating unnecessary positions at Pemex; increasing public resources through amendments to tax laws; and by training managers and technical workers. Madrazo said he would propose to Congress a new fiscal regime for Pemex and the Federal Electricity Commission without reducing transfers to the states. He offered to promote autonomy and corporate governance for both state-run companies.

17. (SBU) Focusing on rule of law, Madrazo offered to increase the capabilities of federal police, create a national intelligence system, establish a civil career system for police forces, and modernize state and municipalities police forces. Madrazo would put all federal police forces would come under a single command. Madrazo proposes to strengthen prosecutors' capabilities with new technologies, but he would also make them liable/accountable for the correct preparation of cases and the successful conclusion of criminal cases. Madrazo promised to promote oral trials, a development with tremendous potential improve the judicial system's efficiency.

18. (SBU) Madrazo offered to analyze and modify the country's labor framework to promote productivity and competitiveness. To improve employment opportunities, he proposed the creation of a national system that would advise the young population on feasible work sources in coordination with local government, businesses and other organizations. To stem migration, the PRI candidate offered to create regional businesses to strengthen regional economies and proposed the creation of productive chains to guarantee the consumption of local products. He would support business incubators for students in conjunction with universities and businesses. To gain the support of Congress, Madrazo said he would keep legislators informed through reports on the current economic situation and explain to them the benefits expected from his proposed reforms.

CALDERON'S COALITION GOVERNMENT

19. (SBU) National Action Party candidate Felipe Calderon continued to promote private investment in the energy sector, a reduced and flat tax rate, greater interaction with the global economy, government transparency, and a continuation of Fox's social programs. Calderon also addressed the issue of how he would achieve consensus if he faced a divided Congress (as is nearly certain) after the July elections. Citing the example of Germany's Angela Merkel, Calderon said that he would create a coalition government to gain the congressional support he needs to pass his reform agenda.

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CALDERON'S FOREIGN AFFAIRS ADVISOR

110. (SBU) In a press conference, Calderon presented his new foreign affairs advisor, Arturo Sarukhan, a career diplomat, albeit with only twelve years of service. Sarukhan holds a degree in history from UNAM, an MBA from the Colegio de Mexico, and a Master's in international affairs from the Johns Hopkins School of Advanced International Studies (SAIS). During the current administration, Sarukhan served as chief of staff for former Secretary of Foreign Affairs Jorge Castaeda and, until recently, as consul in New York.

COMMENT

111. (SBU) Perhaps satisfied that the markets will not react negatively should he win, AMLO seems to be turning up the populist rhetoric. His rejection of structural reforms and promises of government protections and handouts plays well to his target audience. This could be the "real" AMLO, or it could simply be a campaign tactic to solidify his base and secure his lead. Madrazo, meanwhile continues to struggle with PRI scandals, a lukewarm (at best) reception by voters, and a desire to avoid alienating leftist elements of his party who are opposed to needed reforms to the status

quo. Calderon offers more of what the Mexican economy needs and acknowledges his need for congressional support to pass is reforms. However, he is failing to attract voters beyond his base which is currently not sufficient to win him the presidency. End Comment.
GARZA